

Message Text

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ACTION NEA-12

INFO OCT-01 ISO-00 EB-11 L-03 AID-20 TRSE-00 IGA-02 DRC-01

CIAE-00 INR-10 NSAE-00 RSC-01 OMB-01 COME-00 /062 W

----- 115553

R 041145Z MAR 74

FM AMEMBASSY COLOMBO

TO SECSTATE WASHDC 601

INFO AMEMBASSY NEW DELHI

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EO 11652: N/A

TAGS: EAID, CE

SUBJ: MOV NEGOTIATIONS

NEW DELHI PASS AID REGIONAL LEGAL ADVISOR O'DONNELL

REF: COLOMBO 379

1. AS AGREED WITH FINANCE MINISTER N M PERERA (COLOMBO 345), AMB MET MARCH 1 WITH CHANDRA COOREY, SECRETARY, MINISTRY OF FINANCE, TO LAUNCH RENEWED NEGOTIATIONS TO RESOLVE LONG-STANDING MAINTENANCE OF VALUE (MOV) ISSUE. MEETING COULD NOT TAKE PLACE EARLIER BECAUSE OF COOREY'S LONG CONVALESCENCE FOLLOWING CATARACT OPERATION. ALSO PRESENT ON GSL SIDE WERE S. VELAYUTHAM, DEPUTY DIRECTOR, EXTERNAL RESOURCES DIVISION, MINISTRY OF PLANNING, AND V. SIVASUBRAMANIAN, STAFF ASSISTANT, PUBLIC EET DEPT, CENTRAL BANK. DCM AND AID REP (ACTING) ACCOMPANIED AMBASSADOR.

2. AMB LED OFF DISCUSSION BY POINTING TO LENGTH OF TIME MOV QUESTION HAS PLAGUED US. IT WAS, HE SAID, AN IRRITANT IN OTHERWISE FINE US-GSL RELATIONS, BUT AT SAME TIME WAS ISSUE WHICH SHOULD LEND ITSELF TO RESOLUTION IN CONTEXT THESE GOOD RELATIONS. IN INTEREST RESOLVING PROBLEM QUICKLY, HE PROPOSED TO START AFRESH AND PROCEED AS EXPEDITIOUSLY AS POSSIBLE TO REACH AGREEMENT.

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3. AMB IDENTIFIED PRINCIPAL ISSUE AS DIFFERING USG AND GSL INTERPRETATIONS OF MOV CLAUSE IN THREE ICA LOAN AGREEMENTS. USG POSITION, HE STATED, REMAINS THAT WHERE MULTIPLE EXCHANGE RATES EXIST USG IS ENTITLED TO HIGHEST RATE. GSL, ON OTHER HAND, MAINTAINS THAT ICA AGREEMENTS PROVIDE FOR A NEGOTIATED RATE, WHICH IT PREFERS TO BE THE OFFICIAL RATE.

4. AMB THEN PRESENTED DATA BASED ON PRELIMINARY EMBASSY CALCULATIONS CONCERNING DISPUTED LOAN BALANCE TO BE PAID FROM DEC 31, 1972, THROUGH MATURITY, AS FOLLOWS:
TOTAL DOLLARS, INCLUDING INTEREST, APPROX 13,550,000
WHICH CONVERTED AT FEEC RATE OF RS 10.61 TO \$1.00 EQUALS RS 143,670,000; CONVERTED AT OFFICIAL RATE OF RS 6.45 TO \$1.00 EQUALS RS 87,070,000. DIFFERENCE IS RS 56,600,000 (APPROX) PAYABLE OVER 24-YEAR PERIOD.

5. AMB BRIEFLY REVIEWED CHRONOLOGY OF DISAGREEMENT, SELECTING FROM ITEMS IN STATE 251795. COOREY AND OTHER GSL REPS CONCURRED IN THIS SUMMARY HISTORY AND PROVIDED COPIES OF TWO LETTERS FROM BENSON DATED FEB 19, 1969, AND MAY 3, 1969, TO CHIEF ACCOUNTANT, CENTRAL BANK, AS EVIDENCE OF EARLIER CONFUSION BETWEEN DLF AND ICA LOANS AND LANGUAGE OF MOV CLAUSES. LETTERS WERE NOTED FOR INCLUSION IN FUTURE DISCUSSIONS.

6. AMB THEN REAFFIRMED IN DETAIL USG POSITION AS SET FORTH IN APPROPRIATE PARTS PARA 3 AND 4 STATE 11592, ENDING WITH STATEMENT THAT US THEREFORE MAINTAINS GSL SHOULD PAY ARREARAGES AND FUTURE PAYMENTS OF ALL MOV LOANS AT FULL FEEC RATE.

7. AMB ADDED THAT QUESTION OF ARREARAGES SHOULD BE DISCUSSED AT FUTURE MEETING.

8. FINALLY, AMB PROPOSED THAT, IN ORDER RESOLVE ISSUE AS QUICKLY AS POSSIBLE, MEETINGS SHOULD BE HELD NOT LESS OFTEN THAN EVERY OTHER WEEK UNTIL AGREED SOLUTION COULD BE FOUND. CORREY AGREED AND DATE OF NEXT MEETING WAS SET FOR MARCH 13.

9. JUST BEFORE MEETING CLOSED, COOREY INQUIRED UNDER WHAT LIMITED OFFICIAL USE

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CIRCUMSTANCES WOULD NEED TO ARRIVE AT REPAYMENT RATE BY "MUTUAL AGREEMENT" ARISE--THAT IS, WHY WAS SUCH LANGUAGE INCLUDED IN ICA MOV CLAUSE? AMB SAID HE WOULD RESPOND AT NEXT MEETING.

10. WE NOTE DEPTS TENTATIVE ANSWER TO COOREYS QUESTION IN PARA 3 STATE 11592, BUT WOULD VERY MUCH APPRECIATE MORE DEFINITE EXPLANATION BEFORE MARCH 13 MEETING.

VAN HOLLEN

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